

State Water Contractors

Objective 3:

Converting to Pay-As-You-Go Billing Methodology

Water Supply Contract Extension
Negotiation Meeting #2
May 15, 2013

10:00 AM – 3:00 PM

Tsakopoulos Library Galleria
828 I Street
Sacramento, CA 95814

SWCCE-0012
May 13, 2013
12:04 PM



Objective 3

**To ensure that DWR can extend
cost recovery of SWP expenditures
as defined in the Water Supply
Contracts beyond 2035 no later
than December 31, 2014.**

Why Contractors Are Requesting Objective 3

- 1. Project Repayment Period Stops All SWRDS Financing Activity by CYE 2035**
 - **Financing in 2013, Term is 22 Years**
 - **\$10B Estimated Capital Costs within the Next 20 Years**
- 2. Outdated Financial Practice of Financing Annual Operation & Maintenance Costs for Conservation Facilities**
 - **75 Years @ Project Interest Rate**

Initial Offer – Objective 3

- **Convert to Pay-As-You-Go Billing Method for All New Costs After the Amendment's Implementation Date**
 - **Objective is to Eliminate the Project Repayment Period for Future Costs**
- **Execute amendments to the Water Supply Contracts to avoid the unintentional consequences caused by extending the contract term.**
 - **Need amendments to address the fixed project repayment period which ends in December 31, 2035.**

Unintended Consequences

- **Just Extending the Contract Term, Will Not Extend the Project Repayment Period**
- **Amendment is Necessary to Address the Project Repayment Period**
- **Project Repayment Period Determines Amortization Period For Capital and Conservation Cost Recovery**
 - **Extend Contract to 2110, Amortized Repayment is Fixed at 2035**
 - **Issuing Bonds Would Extended Project Repayment Period for Facilities included in the Bond Issuance**
 - **Multiple Bonds Creates Multiple Project Repayment Periods, Creating Complexity**
 - **Contractors are Proposing Amendment to Simplify Billing by Eliminating the Project Repayment Period**

E
X
A
M
P
L
E

Amortized Cost Components

Statement of Charges

Current Pay-As-You-Go Components

Annual Recovery:

- Transportation Minimum
- Transportation Variable
- Off Aqueduct Power Facilities
- Miscellaneous:
 - East Branch Enlargement
 - East Branch Extension
 - Coastal Branch Extension
 - South Bay Aqueduct Extension
 - Replacement Accounting

Amortized Components

Recovered Over Time:

- Transportation Capital
- Conservation Capital
- Conservation Minimum
- Water Systems Revenue Bond Surcharge

Recommended Solution

Historical Costs

Freeze

Go

Future Costs

Continue Reimbursement Consistent With Current Contract Terms For All Costs Incurred Prior to the Implementation Date as Defined by an Amendment

As of the Implementation Date Defined by an Amendment, Convert the Basis of Reimbursement for Future Costs to a Pay-As-You-Go Methodology

- **Contractors Pay Annual**
 - Actual & Estimated Costs
 - Debt Service; Principal, Interest, Bond Cover

Initial Implementation Schedule

- Executed Water Supply Contract Extension Amendment

- Hard Stop Date For Costs Incurred and Included in the Definition of Historical Cost Recovery
- Commercial Paper Sold for all Capital Costs incurred and recorded as of Dec. 31, 2016

Dec 31, 2014

2015

2016

Dec 31, 2016

Jan 1, 2017

- Plan and Implement New Billing Processes and Procedures

- Implementation Date
- Beginning Date For Costs Incurred and Included in the Definition of Future Cost Recovery
- Bonds Issued for Last Bond Series Included in the Historical Amortized Capital Cost Recovery

Developing Agreements in Principle

Minimize Change in Provisions

- Keep proposed amendments as minimal and simple as possible
- Project Repayment Period would not be used to Define the Term of the Contract

Add Provision

- The recovery of Future Capital Costs Incurred Shall Mean the Recovery of Annual Debt Service (Principal, Interest, Bond Cover)

Project Repayment Period

- Subdivide Total Costs of Any Facility into Two Separate Periods:
 - Historical Costs
 - Future Costs

“Return to the State All Costs by the Termination Date of the Water Supply Contract”

Dates

- Contract Extended From Dec. 2035
 1. 75 Year Extension to 2110
 2. 40 Year Extension to 2075
- Define a Transition/Implementation Date